

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Monroe County Road Commission	County Monroe
Audit Date December 31, 2004	Opinion Date March 7, 2005	Date Accountant Report Submitted to State: March 23, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

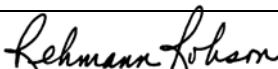
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



MONROE COUNTY  
**R O A D**  
COMMISSION

**(a Component Unit of Monroe County)**

**MONROE, MICHIGAN**

**FINANCIAL STATEMENTS**

**For The Year Ended December 31, 2004**



**REHMANN ROBSON**

*Certified Public Accountants*

**MONROE COUNTY ROAD COMMISSION**  
(a Component Unit of Monroe County)

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

March 7, 2005

Members of the Board of County  
Road Commissioners  
County of Monroe, Michigan  
Monroe, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **MONROE COUNTY ROAD COMMISSION**, a component unit of Monroe County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Monroe County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Monroe County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2005, on our consideration of the **Monroe County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Monroe County Road Commission's** basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Monroe County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Monroe County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2004.

### Financial Highlights

The Monroe County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2002.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Monroe County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$88,787,540 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$3,684,094. This was comprised of an increase of \$6,149,384 in infrastructure assets, and a decrease of \$2,465,290 in unrestricted net assets.

At the end of the current fiscal period, unreserved fund balance was \$2,203,196, or 7.16% of total general fund expenditures.

The Road Commission's debt decreased by approximately \$981,000 during the current fiscal year; no new debt was issued.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide Statements

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Commission is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Monroe County.

The government-wide financial statements include only the Commission itself. The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Monroe County, which reports the Commission as a component unit.

The government-wide financial statements can be found on pages 9 and 11 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 9 through 13 of this report.

The Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

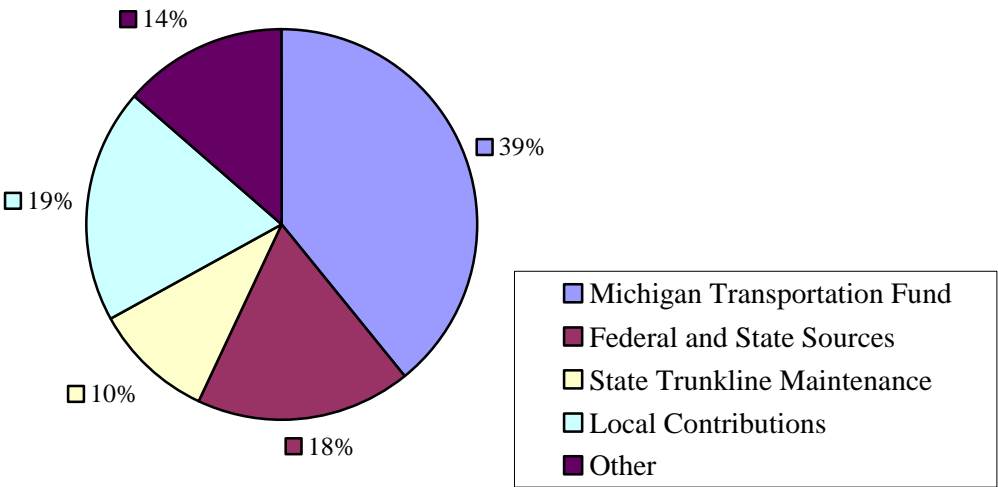
**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

<b>Condensed Statement of Net Assets</b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Current Assets	\$ 7,801,724	\$ 11,660,698
Capital Assets	<u>89,689,236</u>	<u>83,539,852</u>
Total Assets	<u>97,490,960</u>	<u>95,200,550</u>
Long-term liabilities outstanding	5,483,015	6,464,336
Other liabilities	<u>3,220,405</u>	<u>3,632,768</u>
Total liabilities	<u>8,703,420</u>	<u>10,097,104</u>
Net assets:		
Invested in capital assets	84,747,956	77,616,163
Restricted	0	0
Unrestricted	<u>4,039,584</u>	<u>4,260,555</u>
<b>Total net assets</b>	<b><u>\$ 88,787,540</u></b>	<b><u>\$ 85,103,446</u></b>

#### **Condensed Statement of Activities**

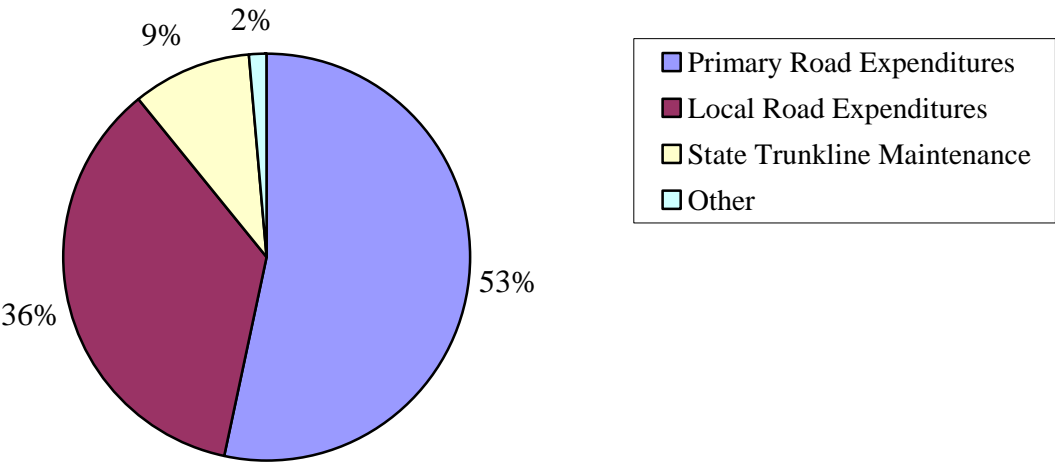
<b>Revenue</b>		
State Aid	\$ 12,510,463	\$ 11,653,868
Federal sources	3,282,740	2,288,862
Local and other sources	<u>11,420,977</u>	<u>9,691,610</u>
Total revenue	<u>27,214,180</u>	<u>23,634,340</u>
<b>Expenses</b>		
Public Works	23,299,519	17,182,015
Debt Service - Interest only	<u>230,567</u>	<u>237,898</u>
Total expenses	<u>23,530,086</u>	<u>17,419,913</u>
Change in Net Assets	3,684,094	6,214,427
<b>Net assets:</b>		
<b>Beginning of year</b>	<b><u>85,103,446</u></b>	<b><u>78,889,019</u></b>
<b>End of year</b>	<b><u>\$ 88,787,540</u></b>	<b><u>\$ 85,103,446</u></b>

**Revenues by Source - Governmental Activities**



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**Expenditures - General Fund**



## Capital Assets and Debt Administration

### Capital Assets

Major capital asset events during the current fiscal year included the following:

- Construction of salt storage facility at Monroe location \$667,585
- Renovations at Dundee garage location \$112,435
- Road equipment additions of \$215,396
- Infrastructure assets reflect construction and improvements to the primary and local road system

### Monroe County Road Commission Capital Assets (net of depreciation)

	<u>2004</u>	<u>2003</u>
Land and improvements	\$ 825,464	\$ 825,558
Buildings	2,659,261	2,735,917
Road Equipment	1,632,291	2,227,369
Shop Equipment	50,819	48,684
Office Equipment	195,563	211,857
Engineering Equipment	8,039	10,182
Yard & Storage Equipment	949,234	310,423
Infrastructure		
Roads and Bridges	82,991,177	76,809,394
Traffic Signals	<u>377,388</u>	<u>360,468</u>
<b>Total</b>	<b><u>\$ 89,689,236</u></b>	<b><u>\$ 83,539,852</u></b>

<b>Long-term Debt</b>	<u>2004</u>	<u>2003</u>
Bonds Payable	\$ 4,445,000	\$ 5,360,000
Lease Purchase Agreements	470,369	534,539
Compensated absences	<u>541,735</u>	<u>540,647</u>
<b>Total</b>	<b><u>\$ 5,457,104</u></b>	<b><u>\$ 6,435,186</u></b>

Additional information on the Road commission's long-term debt can be found in Note 4 on pages 20-21 of this report.

## **Economic Factors and Road Fund Budgetary Highlights**

The Road Commission amended its 2004 budget during the year to reflect the allocation between primary and local road projects after completion of the 2004 Master List of Projects.

During 2004, the Road Commission received approximately \$450,000 in additional revenue from Michigan Transportation Funds (MTF) due partially to a one-time increase in revenue of license registration fees. We anticipate receiving approximately \$350,000 less in MTF funds during fiscal year 2005, due to a change in the rate for Urban mileage. Management has worked diligently to propose the 2005 Master List of Projects prior to submittal of the 2005 Budget. The Board of Road Commissioners have set capital improvement spending at \$700,000 for 2005.

## **Requests for Information**

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Monroe County Road Commission, 840 S. Telegraph Road, Monroe, MI 48161.

## **BASIC FINANCIAL STATEMENTS**

# MONROE COUNTY ROAD COMMISSION

## STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash and interest bearing deposits	\$ 1,266,241	\$ -	\$ 1,266,241
Accounts receivable			
State trunkline maintenance	187,381	-	187,381
Due on county road and bond agreements	3,023,633	-	3,023,633
Motor vehicle highway funds	2,023,142	-	2,023,142
Other	339,114		339,114
Special assessments receivable	125,832	-	125,832
Inventories			
Road materials	386,106	-	386,106
Equipment material and parts	183,099	-	183,099
Deferred expense - Federal aid	267,176		267,176
Capital assets			
Assets not being depreciated	-	12,061,321	12,061,321
Assets being depreciated, net	-	77,627,915	77,627,915
<b>Total assets</b>	<b>\$ 7,801,724</b>	<b>89,689,236</b>	<b>97,490,960</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,385,490	\$ 397,680	\$ 1,783,170
Accrued liabilities	705,396	61,517	766,913
Advances			
State trunkline equipment and maintenance	664,054	-	664,054
Deferred revenue - special assessments	125,832	(125,832)	-
Deferred revenue - other	2,717,756	(2,711,488)	6,268
Long-term liabilities			
Due within one year	-	624,737	624,737
Due after one year	-	4,858,278	4,858,278
<b>Total liabilities</b>	<b>5,598,528</b>	<b>3,104,892</b>	<b>8,703,420</b>
<b>Fund balance/net assets</b>			
Fund balance			
Reserved			
Inventories	569,205	(569,205)	-
Unreserved			
Undesignated	1,633,991	(1,633,991)	-
<b>Total fund balances</b>	<b>2,203,196</b>	<b>(2,203,196)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,801,724</b>		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		84,747,956	84,747,956
Unrestricted		4,039,584	4,039,584
<b>Total net assets</b>		<b>\$ 88,787,540</b>	<b>\$ 88,787,540</b>

The accompanying notes are an integral part of these financial statements.

# MONROE COUNTY ROAD COMMISSION

## Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2004

Fund balances - General Fund	\$ 2,203,196
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	89,689,236
Certain receivables are expected to be collected over several years, and are not available to pay for current year expenditures	
Special assessments	125,832
Due from townships on bond funding agreements	2,711,488
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable including unamortized bond premium	(4,470,911)
Installment lease purchase agreements payable	(470,369)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(61,517)
Deduct - claims payable for MDOT state maintenance contract audits	(397,680)
Deduct - compensated absences payable	(541,735)
Net assets of governmental activities	<u><u>\$ 88,787,540</u></u>

The accompanying notes are an integral part of these financial statements.

# MONROE COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>General Operating Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>REVENUE</b>			
Permits	\$ 167,049	\$ -	\$ 167,049
Intergovernmental:			
Federal sources	3,282,740	-	3,282,740
State sources	12,510,463	-	12,510,463
Local sources	5,917,381	(515,240)	5,402,141
Charges for services	2,973,144	-	2,973,144
Interest and rentals	68,876	-	68,876
Other	2,834,933	(25,166)	2,809,767
<b>TOTAL REVENUE</b>	<u>27,754,586</u>	<u>(540,406)</u>	<u>27,214,180</u>
<b>EXPENDITURES/EXPENSES</b>			
Current:			
Public works	29,550,280	(6,250,761)	23,299,519
Debt service:			
Principal	979,170	(979,170)	-
Interest	241,272	(10,705)	230,567
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>30,770,722</u>	<u>(7,240,636)</u>	<u>23,530,086</u>
<b>NET CHANGE IN FUND BALANCES</b>	(3,016,136)	3,016,136	
<b>CHANGE IN NET ASSETS</b>		3,684,094	3,684,094
<b>FUND BALANCE/NET ASSETS,</b>			
Beginning of year, as restated	<u>5,219,332</u>	<u>79,884,114</u>	<u>85,103,446</u>
<b>FUND BALANCE/NET ASSETS, End of year</b>	<u><u>\$ 2,203,196</u></u>	<u><u>\$ 86,584,344</u></u>	<u><u>\$ 88,787,540</u></u>

The accompanying notes are an integral part of these financial statements.

# MONROE COUNTY ROAD COMMISSION

## Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - General Fund \$ (3,016,136)

Amounts reported for *governmental activities* in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Add - capital outlay	17,176,252
Add - Infrastructure additions	1,499,500
Deduct - depreciation expense and equipment retirements	(12,526,368)

Proceeds from debt issuances are not reported as financing sources on the  
statement of activities, and related amortization of bond premium reduces  
expenditures on the statement of activities:

Amortization of bond premium	3,239
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Repayment of debt principal is an expenditure in the funds but not in the statement  
of activities:

Bond payments	915,000
Capital lease principal payments	64,170

Interest expense is recorded in the statement of activities when a liability is incurred;  
they are reported in the funds only when payment is due 7,464

Certain revenues are recorded in the statement of activities when the amount  
is earned; they are not reported in the funds unless collected within 60 days of year end

Special assessments	(25,166)
Accounts receivable	(515,240)

Some expenses reported in the statement of activities do not require the use of current  
financial resources and therefore are not reported as expenditures in the funds.

Reduction in accounts payable	102,465
Addition to compensated absences	(1,086)

Change in net assets of governmental activities	<u>\$ 3,684,094</u>
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The accompanying notes are an integral part of these financial statements.

**MONROE COUNTY ROAD COMMISSION**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**

**IN FUND BALANCE - BUDGET AND ACTUAL**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUE</b>				
Permits	\$ 240,000	\$ 175,000	\$ 167,049	\$ (7,951)
Intergovernmental:				
Federal sources	2,774,000	3,335,751	3,282,740	(53,011)
State sources	10,516,000	12,374,100	12,510,463	136,363
Local sources	6,038,500	6,160,050	5,917,381	(242,669)
Charges for services	1,881,280	3,061,100	2,973,144	(87,956)
Interest and rentals	146,500	68,105	68,876	771
Other	374,975	2,783,325	2,834,933	51,608
<b>TOTAL REVENUE</b>	<b>21,971,255</b>	<b>27,957,431</b>	<b>27,754,586</b>	<b>(202,845)</b>
<b>EXPENDITURES</b>				
Current:				
Primary road construction	275,000	19,000	18,299	(701)
Local road construction	-	1,997,000	1,997,000	-
Primary road heavy maintenance	8,447,800	11,950,000	11,809,106	(140,894)
Primary road maintenance	2,770,000	2,900,000	2,886,338	(13,662)
Local road heavy maintenance	4,335,897	3,810,000	3,785,263	(24,737)
Local road maintenance	3,240,000	4,441,000	4,390,663	(50,337)
State trunkline maintenance	2,030,280	2,300,000	2,226,677	(73,323)
State trunkline nonmaintenance	1,000	631,100	630,519	(581)
Equipment expense - net	(100,000)	(423,000)	(291,025)	131,975
Administrative expense - net	1,738,000	1,800,000	1,745,759	(54,241)
Drain assessment	60,000	29,919	29,919	-
Other services	295,000	370,000	364,857	(5,143)
Capital outlay - net	(423,000)	61,585	(43,095)	(104,680)
Debt service	1,220,622	1,223,000	1,220,442	(2,558)
<b>TOTAL EXPENDITURES</b>	<b>23,890,599</b>	<b>31,109,604</b>	<b>30,770,722</b>	<b>(338,882)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,919,344)</b>	<b>(3,152,173)</b>	<b>(3,016,136)</b>	<b>136,037</b>
<b>FUND BALANCE, Beginning of year</b>	<b>9,630,457</b>	<b>9,630,457</b>	<b>5,219,332</b>	<b>(4,411,125)</b>
<b>FUND BALANCE, End of year</b>	<b>\$ 7,711,113</b>	<b>\$ 6,478,284</b>	<b>\$ 2,203,196</b>	<b>\$ (4,275,088)</b>

The accompanying notes are an integral part of these financial statements.

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Monroe County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### **Reporting Entity**

The Monroe County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Monroe, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Monroe County Road Commission, a discretely presented component unit of Monroe County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

#### **Basis of Presentation**

Financial activities of the Road Commission are recorded in one fund.

#### **Governmental Fund**

General fund – this fund is used to account for all financial transactions including all financial resources and general operating expenditures.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

### **Measurement Focus Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

### **Budgetary Data**

The Road Commission's procedures for establishing budgetary data are as follows:

The Executive Director, acting as the chief administrative officer, submits a proposed budget for the upcoming year to the Road Commission. The budget is reviewed by the Road Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The Board has authorized the chief administrative officer to amend the Road Commission's budget when necessary by transferring one line-item to another without exceeding 25% of the line item. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

### **Receivables**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<b><u>Unavailable</u></b>	<b><u>Unearned</u></b>	<b><u>Total</u></b>
Special assessments not yet due	\$ 125,832	\$ -	\$ 125,832
Grant drawdowns prior to meeting all eligibility requirements	-	6,268	6,268
Long term loans receivable	<u>2,711,488</u>	<u>-</u>	<u>2,711,488</u>
	<b><u>\$ 2,837,320</u></b>	<b><u>\$ 6,268</u></b>	<b><u>\$ 2,843,588</u></b>

\$100,666 of the Special assessment balance and \$2,396,248 long term loan balance are not expected to be collected in one year.

### **Investments**

Investments include certificates of deposit and a cash management fund which are carried at fair value.

### **Inventory**

Inventory, consisting of various operating parts, supplies and road material, is stated at the lower of cost or market, using the average cost method.

### **Fund Balance Reservations**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Infrastructure assets are being capitalized and depreciated beginning in fiscal year 2001. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	<b><u>Useful Life In Years</u></b>
Buildings and improvements	10 to 50
Equipment	5 to 10
Infrastructure	8 to 50

### **Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

### **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statements No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

## 2. CASH DEPOSITS AND INVESTMENTS

### Deposits

At December 31, 2004, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Petty cash	\$400	\$ -
Insured	100,000	100,000
Uninsured – uncollateralized	151,430	461,799
Held by Monroe County *		
Bank money markets	1,014,411	1,004,481
	<u>\$1,266,241</u>	<u>\$1,566,280</u>

\*Deposits of the Road Commission held by Monroe County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

### Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

### 3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2003	Restatement and Reclassifications	Additions	Deductions	Balance December 31, 2004
<b>Capital assets not being depreciated:</b>					
Land	\$ 731,812	\$ -	\$ -	\$ -	\$ 731,812
Land improvements - infrastructure	9,720,312	109,697	1,499,500	-	11,329,509
<b>Subtotal</b>	<b>10,452,124</b>	<b>109,697</b>	<b>1,499,500</b>	<b>-</b>	<b>12,061,321</b>
<b>Capital assets being depreciated:</b>					
Land improvements	131,439	-	9,879	-	141,318
Buildings and improvements	4,060,700	-	112,435	-	4,173,135
Road equipment	8,420,583	-	215,396	286,534	8,349,445
Shop equipment	222,723	-	9,953	-	232,676
Office equipment	928,655	-	50,900	-	979,555
Engineers' equipment	74,714	-	-	-	74,714
Yard and storage	843,398	-	667,585	147,129	1,363,854
Infrastructure	114,789,457	(109,697)	16,110,104	-	130,789,864
<b>Subtotal</b>	<b>129,471,669</b>	<b>(109,697)</b>	<b>17,176,252</b>	<b>433,663</b>	<b>146,104,561</b>
<b>Accumulated depreciation and depletion</b>					
Land improvements	37,693	-	9,973	-	47,666
Buildings and improvements	1,324,784	-	189,090	-	1,513,874
Equipment	7,681,557	-	873,027	390,286	8,164,298
Infrastructure	47,339,907	-	11,410,901	-	58,750,808
<b>Total accumulated depreciation</b>	<b>56,383,941</b>	<b>-</b>	<b>12,482,991</b>	<b>390,286</b>	<b>68,476,646</b>
<b>Total capital assets being depreciated - net</b>	<b>73,087,728</b>	<b>(109,697)</b>	<b>4,693,261</b>	<b>43,377</b>	<b>77,627,915</b>
<b>Governmental activities capital assets - net</b>	<b>\$ 83,539,852</b>	<b>\$ -</b>	<b>\$ 6,192,761</b>	<b>\$ 43,377</b>	<b>\$ 89,689,236</b>

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<b>Balance January 1, 2004</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Balance December 31, 2004</b>	<b>Due Within One Year</b>
Bonds payable	\$ 5,360,000	\$ -	\$ 915,000	\$ 4,445,000	\$ 525,000
Premium for bond issuance	29,150	-	3,239	25,911	-
Installment lease purchase agreements	534,539	-	64,170	470,369	66,737
Compensated absences	540,647	1,088	-	541,735	33,000
<b>Totals</b>	<b>\$ 6,464,336</b>	<b>\$ 1,088</b>	<b>\$ 982,409</b>	<b>\$ 5,483,015</b>	<b>\$ 624,737</b>

Long-term debt on the Statement of Net Assets includes \$25,911 in unamortized bond premium.

Bonds payable include the following:

Michigan Transportation Fund Bonds, Series 1999, dated May 1, 1999, in the amount of \$2,400,000, with interest at 4.2% to 5%, with a balance due of \$1,645,000 at December 31, 2004.

Michigan Transportation Fund Bonds, Series 2004, dated 7/1/02 in the amount of \$3,500,000, payable in annual installments of \$350,000, plus interest at 2.75% to 4%, with a balance due of \$2,800,000 at December 31, 2004.

Installment lease purchase agreements consists of a multi-equipment obligation including 2 Cat Loaders and 2 Cat Graders. Annual payments including interest of 4% range from \$64,170 to \$262,044 with the last payment due January 15, 2008.

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the lease purchase agreements and bonds are as follows:

Year Ending December 31,	Governmental Activities			
	Installment Lease		Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 66,737	\$ 18,870	\$ 525,000	\$ 175,998
2006	69,405	16,202	530,000	157,598
2007	72,183	13,424	540,000	137,897
2008	262,044	10,538	550,000	117,210
2009	-	-	560,000	94,882
2010-2012	-	-	1,740,000	136,656
	<b>\$ 470,369</b>	<b>\$ 59,034</b>	<b>\$ 4,445,000</b>	<b>\$ 820,241</b>

### 5. RETIREMENT PLAN

#### Description of Plan and Plan Assets

Substantially, all full-time employees of the Monroe County Road Commission are covered by the Monroe County Public Employees' Retirement System (PERS). The County is the administrator of a single-employer defined benefit pension plan that was adopted and established by the County in accordance with Michigan Compiled Laws, Section 46.12a. The PERS is a pension trust fund of the County's reporting entity and is included within the County's financial statements as a fiduciary fund type.

The system provides the following provisions: regular retirement, deferred retirement, nonduty-connected death in service, duty-connected death in service, nonduty-connected disability, duty-connected disability, and post-retirement increases to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination multiplied by 2.25% of final average compensation (FAC) with a maximum benefit of 75% of FAC. The type of FAC for the Road Commission is the highest 3 consecutive years out of the last 10. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

Monroe County issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Monroe County, 106 East First Street, Monroe, Michigan 48161.

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units and personnel policy. Employees of the Road Commission were required to contribute 3.1 % of their annual compensation during the calendar years 2004 and 2003. If an employee leaves the employment of the Road Commission before vesting, the employee's accumulated contributions, plus earned interest, are refunded to the employee or designated beneficiary. The Road Commission was required to contribute to the PERS 6.72% and 3.1%, respectively, of covered employees compensation in the years 2004 and 2003.

# MONROE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Annual Pension Cost

During the calendar year ended December 31, 2004, the employees of the Monroe County Road Commission contributed \$155,137 and the Monroe County Road Commission contributed \$336,299 in accordance with the actuarial valuation. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal funding method, the employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial liability over 16 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 7% and annual salary increases of 5.0 to 12.0% (Including pay inflation of 4.0%).

### Three Year Trend Information

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2002	\$ -	100.00%
2003	-	100.00%
2004	336,299	100.00%

### Schedule of Funding Progress

<u>Fiscal Covered Year</u>	<u>Actuarial Value of Assets (1)</u>	<u>Actuarial Accrued Liability (2)</u>	<u>Overfunded AAL (UAAL) (2) – (1)</u>	<u>Percentage Funded (1) / (2)</u>	<u>Covered Payroll</u>	<u>OAAL as a Percentage of Covered Payroll (2-1) / (5)</u>
2001	\$150,304,504	\$116,359,159	\$(33,945,345)	129.2%	\$35,250,392	(96.3)%
2002	148,404,995	125,652,447	(22,752,548)	118.1%	35,895,185	(63.4)%
2003	162,683,115	139,141,015	(23,542,100)	116.9%	37,862,618	(62.2)%

## 6. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents). The Road Commission uses the Accident Fund of Michigan for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

# **MONROE COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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The county road commissions in the State of Michigan established a trust fund, known as the Michigan County Road Commission Self-Insurance Pool ("Pool") pursuant to the provision of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the state.

The Michigan County Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

### **7. POST EMPLOYMENT BENEFITS**

The Road Commission provides post-employment health and life insurance benefits, in accordance with labor contracts and personnel policy, to all employees who retire under the provisions of the Monroe County Road Commission. Currently, 78 retirees met those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission in 2004, totaled \$657,814, less \$41,400 reimbursed by the retirants for a net total cost of \$616,414.

### **8. COMMITMENTS AND CONTINGENCIES**

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

### **9. SINGLE AUDIT**

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$3,282,740 of federal/state dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

### **10. RESTATEMENT**

Net assets were restated (increased) in the amount of \$3,226,728 to correct for amounts due from townships for their portion of the Road Commission's bonded indebtedness.

## **OPERATING FUND SCHEDULES**

**MONROE COUNTY ROAD COMMISSION**  
**SCHEDULE OF CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>	<u>Total</u>
<b>Fund balance, December 31, 2003,</b>	\$ 2,642,384	\$ -	\$ 2,576,948	\$ 5,219,332
<b>Revenues and other sources over expenditures</b>				
Revenues	13,663,388	7,751,434	6,339,764	27,754,586
Optional transfers and adjustment	200,000	3,400,000	(3,600,000)	-
Expenditures	<u>16,391,379</u>	<u>11,056,380</u>	<u>3,322,963</u>	<u>30,770,722</u>
<b>Fund balance, December 31, 2004</b>	<u><u>\$ 114,393</u></u>	<u><u>\$ 95,054</u></u>	<u><u>\$ 1,993,749</u></u>	<u><u>\$ 2,203,196</u></u>

# MONROE COUNTY ROAD COMMISSION

## SCHEDULE OF REVENUES

**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Primary Road</b>	<b>Local Road</b>	<b>County Road Commission</b>	<b>Total</b>
<b>Revenues</b>				
Licenses and permits				
Weight permits	\$ -	\$ -	\$ 167,049	\$ 167,049
Federal grants (MDOT administered)				
Surface Transportation Program	2,351,651	-	-	2,351,651
Federal D funds	706,674	-	-	706,674
Bridge and other	224,415	-	-	224,415
	<u>3,282,740</u>	<u>-</u>	<u>-</u>	<u>3,282,740</u>
State grants				
Michigan Transportation Fund				
Engineering	6,667	3,333	-	10,000
Primary road	6,519,751	-	-	6,519,751
Local road	-	2,983,300	-	2,983,300
Primary urban road	960,659	-	-	960,659
Local urban road	-	399,183	-	399,183
Critical bridge	33,491	-	-	33,491
Economic Development	1,254,079	-	-	1,254,079
Other	-	-	350,000	350,000
	<u>8,774,647</u>	<u>3,385,816</u>	<u>350,000</u>	<u>12,510,463</u>
Contributions form other units				
Monroe County	-	546,190	-	546,190
City and Village	-	-	23,844	23,844
Townships	1,560,635	3,786,712	-	5,347,347
Other	-	-	-	-
	<u>1,560,635</u>	<u>4,332,902</u>	<u>23,844</u>	<u>5,917,381</u>
Charges for services				
State trunkline maintenance	-	-	2,156,070	2,156,070
State trunkline nonmaintenance	-	-	630,447	630,447
Inspection fees and other	-	-	164,673	164,673
Salvage and material sales	-	-	21,954	21,954
	<u>-</u>	<u>-</u>	<u>2,973,144</u>	<u>2,973,144</u>
Interest and rents				
Interest revenue and property rentals	23,642	-	45,234	68,876
Other revenue				
Special assessments	-	32,716	-	32,716
Land and building sales	-	-	1,000	1,000
Refunds and other	-	-	433,563	433,563
Private contributions	-	-	2,296,751	2,296,751
Gain on equipment disposal	21,724	-	49,179	70,903
	<u>21,724</u>	<u>32,716</u>	<u>2,780,493</u>	<u>2,834,933</u>
<b>Total revenues</b>	<b><u>\$ 13,663,388</u></b>	<b><u>\$ 7,751,434</u></b>	<b><u>\$ 6,339,764</u></b>	<b><u>\$ 27,754,586</u></b>

# MONROE COUNTY ROAD COMMISSION

## SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>	<u>Total</u>
<b>Construction</b>	\$ 18,299	\$ 1,997,000	\$ -	\$ 2,015,299
<b>Primary Road</b>				
Heavy Maintenance	11,199,835	-	-	11,199,835
Maintenance	2,873,388	-	-	2,873,388
<b>Local Road</b>				
Heavy Maintenance	-	3,218,115	-	3,218,115
Maintenance	-	4,376,996	-	4,376,996
<b>Primary Road Structure</b>				
Heavy Maintenance	609,271	-	-	609,271
Maintenance	12,950	-	-	12,950
<b>Local Road Structure</b>				
Heavy Maintenance	-	567,148	-	567,148
Maintenance	-	13,667	-	13,667
<b>State Trunkline Maintenance</b>	-	-	2,226,677	2,226,677
<b>State Trunkline Nonmaintenance</b>	-	-	630,519	630,519
<b>Equipment Expense - Net</b>	(92,546)	(126,945)	(71,534)	(291,025)
<b>Administrative Expense - Net</b>	1,032,145	713,614	-	1,745,759
<b>Drain Assessment</b>	6,873	23,046	-	29,919
<b>Other Services</b>	29,690	26,982	308,185	364,857
<b>Capital Outlay - Net</b>	(272,211)	-	229,116	(43,095)
<b>Other</b>				
Debt principal payments	793,127	186,043	-	979,170
Debt interest payments	180,558	60,714	-	241,272
<b>Total expenditures</b>	<u><u>\$ 16,391,379</u></u>	<u><u>\$ 11,056,380</u></u>	<u><u>\$ 3,322,963</u></u>	<u><u>\$ 30,770,722</u></u>

## **INTERNAL CONTROL AND COMPLIANCE**



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

March 7, 2005

Members of the Board of County  
Road Commissioners  
County of Monroe, Michigan  
Monroe, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Monroe County Road Commission, a component unit of Monroe County, as of and for the year ended December 31, 2004, and have issued our report thereon dated March 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Monroe County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Monroe County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Monroe County Road Commission in a separate letter dated March 7, 2005.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, the County's Board of Commissioners, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



March 7, 2005

The Board of County Road Commissioners  
of Monroe County, Michigan  
Monroe, Michigan

We have audited the basic financial statements of **MONROE COUNTY ROAD COMMISSION, a component unit of Monroe County**, as of and for the year ended December 31, 2004, and have issued our report thereon dated March 7, 2005.

Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter dated January 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Monroe County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Monroe County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Monroe County Road Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2004. We noted no transactions entered into by Monroe County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

We noted no transactions entered into by Monroe County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed various bookkeeping and audit adjustments that, in our judgment, in the aggregate, had a significant effect on the Monroe County Road Commission. The Monroe County Road Commission has posted all journal entries that we have identified as significant, and their effect is included in the Monroe County Road Commission's financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Monroe County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Road Commissioners and management of Monroe County Road Commission, a component unit of Monroe County and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Lobson". The signature is written in black ink and is positioned below the "Very truly yours," text.

# MONROE COUNTY ROAD COMMISSION

## COMMENTS

**For the Year Ended December 31, 2004**

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This memorandum does not affect our report dated March 7, 2005, on the basic financial statements of Monroe County Road Commission.

### **GASB #34 – Purchasing and Accounts Payable Procedures**

Currently, department heads are given the authority to purchase goods or services, and rely on departmental budgets to determine if there are available budget balances. Once received, the vendor invoice will be routed to the procuring department to be reviewed, and to determine if it is “okay to pay”. The invoice, along with the purchase order comes back to the Finance Department, and if complete, the Finance Director will initiate the check signing process.

In order to enhance the internal controls in this area, the Road Commission should consider having the Finance Director involved earlier in the process to approve the purchase before it is made, as a central financial office check that there are available funds in the departmental budget areas. Alternatively, the Road Commission should explore the feasibility of installing an encumbrance system that would allow department heads to know the budget balance by taking into consideration not only the invoices that have been processed against the accounts, but outstanding purchase orders against the accounts as well, at any point in time.

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